

**U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Select Revenue Measures
April 26, 2012 - Hearing on Certain Expiring Tax Provisions**

Comments Submitted for the Record

The undersigned residents and property owners of the State of Illinois respectfully submit these comments in response to the April 26, 2012 Hearing on Certain Expiring Tax Provisions. Our comments are limited to the Production Tax Credit (PTC) for wind energy.

Executive Summary: The PTC is often credited for most of the growth in the wind sector but attributing market activity to the subsidy is overly simplistic and fails to consider other crucial factors driving development. When evaluated against key economic and environment criteria, the cost of the subsidy has proven excessive and the benefits to American taxpayers minimal. If the PTC were to expire, the economics of the industry would shift to States with renewable mandates. Power markets will ultimately confront the real cost of wind energy, and price it accordingly. The overall impact on the industry would be far less severe than proponents claim¹.

Supporting Statements:

High Cost: Since adopted in 1992, the cost of the PTC for wind energy has ballooned from \$5 million/year in 1998 to \$1.5 billion annually today. The open-ended subsidy of 2.2¢/kWh in after-tax income represents a pre-tax value of approximately 3.7¢/kWh. In many regions of the country the PTC now equals, or is greater than, the wholesale price of power. Even if the PTC were to sunset, taxpayers are still obligated to cover nearly \$10 billion in tax credits for wind projects built in the last decade. This is in addition to the \$15 billion debt for wind projects eligible under Section 1603 (including anticipated 2012 grants).

Inefficient: Since the PTC is uniform across the country it is highly inefficient, supporting poorly sited development in some areas while in other areas supporting projects that would have been built regardless of the credit. This is true in Texas and the Pacific Northwest where wind capacity exceeds transmission capacity and wind is curtailed². In New England the PTC likely pays more subsidy than is necessary owing to aggressive State mandates. Utilities in New England routinely sign long-term power contracts for wind at prices significantly above market.

Other factors advancing wind development: The industry insists it's at risk of a slow-down without the PTC. This view ignores other crucial factors driving development including state mandates and natural gas prices. It is not possible given available data to identify the extent to which the PTC has contributed to growth in the sector³. In fact, demand for wind has eroded recently due, in part, to states meeting their renewable

¹ Linowes et.al. 2012 Congressional Testimony <http://science.house.gov/hearing/subcommittee-investigation-and-oversight-subcommittee-energy-and-environment-%E2%80%93-joint-hearing>

² Wiser and Bolinger, 2010 *Wind Technologies Market Report*, (2011) vii <http://eetd.lbl.gov/ea/ems/reports/lbnl-4820e.pdf>

³ Joint Committee on Taxation, *Present Law And Background Relating To Tax Credits For Electricity Production From Renewable Sources* (2005) 14 <https://www.jct.gov/publications.html?func=startdown&id=1579>

mandates. Lower natural gas prices further reduced wind's attractiveness as a 'fuel saver'. The EIA now forecasts flat growth in the wind sector for this decade regardless of what happens with the PTC⁴.

Job losses: Despite billions in public funding the wind sector experienced a net loss of 10,000 direct and indirect jobs in 2010 bringing the total to 75,000⁵ jobs. Most of the remaining jobs are temporary construction positions requiring peak levels of development year-after-year to maintain current levels. Attempts to attribute job creation to the PTC must be tempered with corresponding job losses due to higher renewable energy prices. The State of Vermont found that adding just 50 MWs of renewable energy at higher-than-market electricity prices "had the deleterious effects of reshuffling consumer spending and increasing the cost of production for Vermont businesses⁶." Last year, rural electric ratepayers in Minnesota paid more than \$70 million in above-market energy prices due to the high cost of wind⁷.

Environmental benefits: Wind energy is an unpredictable, variable resource that cannot be relied on to serve load. Its primary benefit is in reducing U.S. electric carbon emissions. According the Navigant⁸, a four year extension of the PTC could avoid an incremental 170 million tons of CO₂. This "best case" estimate is not predicated on an actual working grid region, but if we accept Navigant's estimate the cost to taxpayers is at least \$23/ton CO₂⁹, ten-times the \$1.92/ton market price for offsets in the Northeastern states participating in RGGI! The PTC is a high-priced vehicle for very questionable reductions of CO₂ emissions.

Conclusion: The key question is whether the benefits of the PTC for wind are worth the cost. This 20-year old subsidy is expensive, inefficient, has failed to produce net-job increases that are sustainable, and the cost applied per ton of CO₂ is more than 10x the market price of carbon under RGGI. The U.S. power market has undergone significant change since the PTC was adopted, including deregulation. It is not possible to isolate the extent to which the PTC contributes to wind sector growth¹⁰. Without the PTC, project economics would shift to states with RPS policies. The value of renewable credits might rise in response but power markets will ultimately confront the real cost of wind energy, and price it accordingly.

⁴ EIA, *Annual Energy Outlook 2012* (2012) <http://www.eia.gov/forecasts/aeo/er/>

⁵ *Wiser and Bolinger v* - Note: No independent audits exist to confirm job counts. Since any new job in the electricity sector must contribute to increasing the cost of electricity, this creates economic de-stimulus.

⁶ VT DPS, *The Economic Impacts of Vermont Feed in Tariffs* (2009) 12
<http://publicservice.vermont.gov/planning/DPS%20White%20Paper%20Feed%20in%20Tariff.pdf>

⁷ Wall Street Journal *Gouged by the Wind* (May 2012)
http://online.wsj.com/article/SB10001424052702303592404577364244006391420.html?mod=googlenews_wsj

⁸ Navigant Consulting, Inc. *Impact of the Production Tax Credit on the U.S. Wind Market* (2011) 38

⁹ Navigant provides no detail on how it determined offsets. Study assumes some wind built without the PTC and only looked at incremental benefit over 4 years (2013-16). The cost per offset is potentially higher than \$23/ton.

¹⁰ Joint Committee on Taxation 14

Supplemental Sheet

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